- All the long distance companies were vague about any plans to provide local residential service. Sprint representatives reported no plans to go into the residential market in any of the three cities, except Orlando. Paradoxically, MCI indicated tentative plans to offer residential service in New Orleans and Greenville, where they currently do not offer business service, but indicated no plan to provide service in Orlando, where they are providing local service to business customers.

- Smaller competitors had no plans to provide residential service.

- When asked why they were not providing residential local service, none of the carriers' representatives indicated that the local phone company was keeping them out of the market. When representatives answered the question, they only indicated that their current marketing plan was to focus on business customers.

Why are these companies refusing to provide service to residential customers? The long distance companies loudly proclaimed a desire and a commitment to serve residential consumers. What explains their absence from this market?

- Local residential service is costly to provide. Business service has traditionally been priced higher than residential service, offering providers a higher profit margin than the residential market. Without government mandates, competition will enter markets that offer the best chance to turn a profit.

- Press reports indicate that the potential competitors underestimated the difficulty of putting together effective business and marketing plans for offering local service to consumers. News of AT&T and MCI announcements, missteps and refinements of their plans to provide local service has filled newspapers since late in 1996.

- The major long distance companies have a financial self-interest to stay out of residential phone service. The slower the long distance companies move into the local service market, the longer they hope they can keep their most significant competitor, the local phone company, out of the long distance business.

Major Long Distance Companies Providing Local Service

All three of the major long distance companies are authorized by the state regulators to provide service in these three target cities, and all have signed interconnection agreements with the incumbent provider.

	New Orleans		**Orlando**		**S/G**	
	Res	**Bus**	**Res**	**Bus**	**Res**	**Bus**
AT&T*	NO	YES	NO	YES	NO	YES
MCI	NO	NO	NO	YES	NO	NO
Sprint	NO	YES	NO	YES	NO	NO

*AT&T's digital link service is available nationwide to business customers with T1.5 access (24 phone lines) or greater. This service delivers outbound local calls using existing or new dedicated digital access facilities.

Small Competitive Local Service Providers

Smaller competitors are carefully targeting markets and almost exclusively serving business customers.

	New Orleans		Orlando		S/G	
	Res	Bus	Res	Bus	Res	Bus
ACSI	NO	YES	NO	NO	NO	YES
Intermedia	NO	NO	NO	YES	NO	YES
Cox	NO	YES	NO	NO	NO	NO

The State of Competition in Three Southeastern States

New Orleans

Nearly 80 companies have signed up to offer local phone service in Louisiana. Although ten of those companies are fully certified, only two are actually marketing service to small pockets of business customers in a handful of the states' largest cities.[2]

"Residential phone customers, who make up the bulk of the local phone market, will have to wait for the long distance giants to enter the market before they have a choice among local service providers, industry observers say. Those are the companies with the resources to serve large numbers of residential customers at a low profit margin."[3] "There is more money involved and more concentration [in the local business market.] In the Central Business District in New Orleans, for example, there is more money to be made than, say, one street of residential customers in Baton Rouge," said Janet Britton, a staff attorney for the Public Service Commission.[4]

Eatel, an independent telephone company serving rural Louisiana, is focusing on residential customers first in Baton Rouge. Eatel has offered local service for nearly two months, although it is not advertising or promoting the service widely. Press reports indicated that AT&T "should" be offering services in New Orleans in 1998 and will enter the market as a reseller.

Consumers called customer representatives from various companies to ask about local service. ACSI offers local business service but was up front in stating that they do not plan to offer residential service. One representative of Cox claimed that residential service would be offered after January 1, 1998, another said that residential service "was possible."

New Orleans Consumer Survey Results

	Serving Business	Serving Residential	Plans to Offer Residential Service
AT&T	Yes	No	"Soon."
MCI	No	No	After Jan. 98
Sprint	Yes	No	No
ACSI	Yes	No	No
Cox	Yes	No	"It is possible"

[2] Keith Darce, "Competition is Calling," *The Times Picayune*, August 17, 1997, pg. F1.
[3] Ibid.
[4] Tom Guarisco, "New Local Phone Service Starts in Baton Rouge," *The Advocate*, April 1, 1997, p.1C.

Orlando, Florida

Over 100 companies are authorized to provide local phone service in the state of Florida and more than 70 interconnection agreements have been signed between CLECs and the incumbent local exchange carriers (ILECs).

Those companies actually offering local service are again focusing on the business market. MCI offers facilities-based service to businesses in Tampa, Orlando, Ft. Lauderdale and Miami. [5] Sprint, Intermedia, MFS, ACSI and AT&T are also offering local service to business customers in limited areas. [6] AT&T says that it plans to go after both residential and business customers but so far only business customers have been targeted. AT&T plans to test local residential service in the Southeast first in Georgia. If that goes well, they might begin offering service toward the end of the year. [7]

Teleport Communications Group (TCG) says that it will offer local phone service in the Tampa Bay area and Orlando. Although TCG plans to build its own fiber networks in these cities, the company will likely resell services from other providers until the network is built. [8] The company did not specify whether it will offer residential services.

Consumers who called companies to inquire about local residential service received a variety of responses. Sprint representatives skirted around the issue of why they provide business but not residential service until they finally just said that Sprint will offer residential service "soon." AT&T diplomatically said that they plan to provide local service when they can offer the value and services desired.

Orlando Consumer Survey Results

	Serving Business	Serving Residential	Plans to Offer Residential Service
AT&T	Yes	No	"Possibly in future."
MCI	Yes	No	No plans
Sprint	Yes	No	"In the process."
Intermedia	Yes	No	No plans
Cox	No	No	No plans

[5] "MCI Seeks Cuts in Local-Competition -- Chilling Costs," MCI Communications Corp. Company Press Release, August 28, 1997.
[6] Frank Ruiz, "You're Going to do What?" *The Tampa Tribune*, August 3, 1997, p. 1.
[7] Patricia Horn, "AT&T Joins Local-Service Bandwagon," *Sun Sentinel*, January 28, 1997, p. 3D.
[8] Paul Abercrombie, "AT&T Joins Local-Service Bandwagon," *Tampa Bay Business Journal*, January 24, 1997, Vol. 17, No. 4, p. 1.

Spartanburg/Greenville, South Carolina

Fourteen companies in South Carolina have filed for and received approval from the Public Service Commission to offer local phone service and fifty-nine interconnection agreements have been signed. However, only three companies, including ACSI and Intermedia, are actually offering local service and then only to a small number of business customers.

These upstart local service companies plan to focus most of their resources on high volume business accounts, ignoring the residential community. When asked what he would tell residential customers, Carl Jackson, director of local exchange services for Intermedia, said, " [I'd] tell them don't wait on [us] for the time being: it's strictly a business focus now."[9] ACSI spokesman James Falvey echoed that sentiment saying that "the economics aren't there right now for us to provide residential service."[10]

The big long distance companies, AT&T, MCI and Sprint, have all been authorized to offer residential local phone service, but only MCI plans to do so. Moreover, at least one CLEC has the facilities to provide local service but has no intention to serve residential consumers.[11]

Spartanburg/Greenville Consumer Survey Results

	Serving Business	Serving Residential	Plans to Offer Residential Service
AT&T	Yes	No	No set plan
MCI	No	No	Plans to offer both in next few months
Sprint	No	No	None
ACSI	Yes	No	No plans

[9] Andrew Meadows, "Competitors Stay Out of Local Phone Market," *The State*, July 18, 1997, p. B7- B11.
[10] Ibid., at B7.
[11] Ibid.

Why Not Offer Residential Service?

The Business Plans of the New Entrants

The debate over the slow pace of competition in local service has been focused on the actions of the ILECs. Equally, if not more important, is the strategic planning, capital investment and management decisions of the potential competitors. While there was a great deal of speculation and enthusiasm during the time Congress was working to pass the 1996 Telecommunications Act, the reality of the costs of doing business has toned down the rhetoric.

The Competitors: The Big Dogs

Major long distance companies like AT&T, MCI and Sprint predicted during the debate over the 1996 Act that they would be serving huge chunks of the local market by now, yet they have moved surprisingly slowly.[12]

AT&T made its big splash in January 28, 1997, when it announced that it would begin offering local phone service on most outbound calls for any business dialing up bills of $2,500 a month or more in 35 states.[13] Many analysts found that offer disappointing, expecting perhaps a partnership announcement with GTE. Later it appeared that AT&T's strategy for entry into the local market involved a merger with SBC Communications.[14] That idea was quickly quashed by Federal Communications Commission Chairman Hundt, and ever since AT&T's approach to entering the market has seemed murky. Currently, AT&T provides local residential service only in Sacramento, California, Libertyville and Waukegan, Illinois and Grand Rapids and Kent County, Michigan. It provides both business and residential service in Connecticut and Georgia.

Of the interexchange carriers (IXCs), MCI has been the most unapologetic in its strategy of going after business customers first. MCI has stated that its "long-term plans don't include penetrating below the top 30% of residential customers."[15] MCI intends to build some of its own facilities, but does not plan to build local networks nationwide. Instead, MCI will pursue business customers through a combination of strategies -- resale, facilities and unbundled networks.[16] The company has launched local service for mid-sized to large businesses in 25 markets (21 over its own networks) so far including Atlanta, Chicago, Los Angeles, New York, and Seattle -- and has announced plans to be in 31 to 60 markets by year end, depending on what newspaper you read. It only offers limited residential service in California, Illinois, and New York.

---

[12] Andrew Kupfer, "The Telecom Wars," *Fortune*, March 3, 1997, p. 136.
[13] Patricia Horn, "AT&T Joins Local-Service Bandwagon," *Sun Sentinel*, January 28, 1997, p. 3D.
[14] Richard Siklos, "Crybaby Bells," *The Financial Post*, August 2, 1997, Sec. 1, p. 7.
[15] *Washington Post*, November 10, 1996.
[16] Carolyn Hirschman, "The Big Three," *Telephony*, June 2, 1997.

Sprint has filed for regulatory approval to provide local service in 47 states and the District of Columbia. It has begun to serve large business customers in Orlando, Florida. Sprint has said that it intends to size up local markets carefully. "We're not going to throw dollars at what might be. When we go into a city we'll know which customers we're going after, and that will determine where we build or lease facilities," said Sprint President D. Wayne Peterson.[17]

The CLECs: The Feisty Pups

In addition to the long distance carriers, dozens of other companies are entering the local business service market. The CLECs seem to agree on a basic strategy for entering the long distance market -- building their own network infrastructures. In terms of marketing strategies, most of the CLECs say they plan to target small to medium-sized businesses. Although focused on the business market, many CLECs may pick up some residential business indirectly through IXC partnerships. AT&T just announced a new competition strategy involving the franchising of the AT&T brand name and marketing rights to affiliated carriers in wireless and local-phone services. The company has been talking with numerous alternative local exchange carriers to carry AT&T's traffic under the AT&T brand in competition with the local Bell companies and GTE. Potential partners for this first-time franchising of the AT&T brand name include small, independent phone companies, electric utilities and even cable television companies.[18]

Conclusion: Who Wins? Who Loses?

This preliminary report on the state of local competition revealed disturbing trends that prompt the need for further examination on a national scale. If the trends found in these three cities continue, there will be definite winners and losers in the competition game. The interests that stand to win include the business consumers, the long distance companies and the competitive access providers. The losers are residential consumers.

There is no doubt that competition has come to the business market. In urban business districts, the large long distance companies are working to capture customers by combining their local and long distance bills and bundling other services. In the cities surveyed in this report, it is the business customers that are the primary, if not exclusive, focus of both the large long distance companies and the smaller CLECs.

By delaying their entry into local service, the IXCs have kept their market, long distance, closed to the regional Bell companies. The Bell companies would bring a level of competition to the long distance market greater than that of smaller companies and resellers, which could force prices down. Unlike the IXCs, competitive access providers (CAPs) have nothing to gain by delaying their entry into the local service market.

---

[17] Andrew Kupfer, "The Telecom Wars," *Fortune*, March 3, 1997, p. 136.
[18] John Keller, "AT&T Sets Bold New Business Strategy," *The Wall Street Journal*, September 18, 1997, p. A1.

Therefore, these companies have moved the most aggressively -- swiftly negotiating interconnection agreements and signing up business customers.

As evidenced in this report, consumers are the losers in this stalemate. Bob Jenks, Executive Director of the Oregon Citizens Utility Board, says, "Companies promoted certain things they were going to do as a way to develop political momentum to get the act passed. Then they backed off."[19]

Consumers in high cost rural and inner city urban areas, stand to lose because with no incentives or mandates to provide residential service, the long distance companies will continue marketing primarily to business and some high-end residential users. Rural areas are expensive to serve because of the distances the lines must cover and the cost of the network is spread over such a small number of customers. Inner city urban areas are often costly and difficult to serve because of the high concentration of low income consumers, in old buildings, with old technology and very little business or upper income consumers to help share the cost of the network. These rural and inner city consumers are likely to see few, if any, choice of providers, resulting in less-competitive pricing and fewer incentives for companies to provide them with new services and technology.

Consumers also pay higher long distance rates than necessary because of a lack of competition in the long distance industry. Currently, the big three long distance companies continue to change their prices in lock-step fashion because there is no real competition in long distance. By taking their time in entering local competition, the long distance companies are gradually gaining market share in local service while keeping the local phone companies out of their core business.

Because of the lack of long distance competition, these companies are also cashing in on FCC changes designed to spur competition. Keep America Connected recently produced a report which sought to determine whether residential consumers would save money as a result of the FCC decision to lower access charges, the fees that long distance companies pay to the local phone company to start and complete a call. "In Search of Savings," found that few companies were passing these savings along to consumers. The report concluded that "only increased competition will push the [long distance companies] to pass along these savings."[20]

Competition in all aspects of the telecommunications market is the key to bringing real savings, choices and new products to all consumers. The stalemate in the development of local service competition in the residential market is blocking all the major benefits of the landmark 1996 Telecommunications Act. Policy makers and consumers must demand an end to this standoff.

---

[19] Roger Crockett, "Phone Reform Seemingly on Hold," *Oregonian*, February 25, 1997, p.1C.

[20] "In Search of Savings: A Look at Long Distance Phone Bills After Access Reform," Keep America Connected, September 24, 1997.

Keep America Connected!

National Campaign for Affordable Telecommunications

202-842-4080 P.O. Box 27911, Washington, DC 20005 202-408-1134 Fax

October 20, 1997

Chairman Reed Hundt
Federal Communications Commission
1919 M Street
Washington, D.C. 20554

RE: Comments of Keep America Connected
CC Docket No. 97.208

Dear Chairman Hundt,

We are writing to urge you to approve BellSouth's 271 application to provide long distance service in the state of South Carolina.

Keep America Connected has several reasons for supporting the application BellSouth's application raises the broader question of whether it is in the public's interest to let local phone companies offer long distance services, generating a huge increase in competition in the long distance market. Our research indicates that the answer is yes.

Last week we released a study called, *Request Denied* that the long distance companies and other new entrants in the market are only interested in serving the business market. It showed that only when the local phone companies are allowed to offer long distance services will the residential market become attractive to long distance companies. We enclose the study for your review.

We have also found that the long distance companies are largely pocketing access charge reductions and not offering meaningful cuts in long distance rates to consumers. Real competition, like the local phone company, will force real reductions in long distance rates. Our report on access charges, *In Search of Savings,* is attached.

BellSouth has already met the test for opening its market to competition as required by the Telecommunications Act of 1996, as indicated by the South Carolina Public Utility Commission's unanimous vote to approve the application. The FCC should not overrule the state's decision. Its time for real competition to flourish throughout the entire telecommunications marketplace. Only when these restrictions on competition are lifted will the real benefits of the Act come to consumers.

Sincerely,

Angela Ledford

Angela Ledford
Director
Keep America Connected

Troy H. Fore Jr.
Executive Director
American Beekeeping Federation

Drew Albritton
Executive Director
American Association for Adult Continuing Education

13th Episcopal District African Methodist Church
Bishop H. Hartford Brookins

Allan H. Karp
Project Coordinator
Florida Association of the Deaf

Frank Pinter
Executive Director
MCIL Resources for Independent Living

Richard Jose Bela, Esq.
Co-Chairman
National Latino Telecommunications Task Force

Tom Garman
Virginia Public Interest Coalition